

# HTC CORPORATION

## 1Q 2009 BUSINESS REVIEW

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# DISCLAIMER STATEMENT

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# PRESENTATION OUTLINE

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# 1Q09 BUSINESS REVIEW

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- 1Q revenue achieved 95.7% of guidance at NT\$31.59bn, down 3% YoY, slightly below the NT\$33bn guidance. The shortfall was caused by delay on new product ramp.
- 1Q GPM came in line with guidance at 30.1%, slightly better than guidance assumption.
- 1Q OPEX ratio was 14.7% (better than 15% guidance); therefore, 1Q operating margin came at 15.3%, also better than 15% guidance.

\*Starting from this conference call, all margins will be under post-bonus bases.

\*\* All the numbers above are based on unconsolidated financial statements.

# MATERIAL BOARD RESOLUTIONS

- Dividend Payout
  - Cash Dividend: NT\$27 per share.
  - Stock Dividend: NT\$0.5 per share.
- Employee Bonus
  - Cash : NT\$1.21bn.
  - Stock\* : NT\$4.95bn. (The number of shares shall be calculated based on the closing price one day prior to the 2009 regular shareholders' meeting on an ex-dividend basis.)
- Approved a cap of employee bonus dilution of 1.75% this year. If the shares of stock bonus calculated by the closing price prior to the date of annual shareholders meeting reach the cap, the surplus amount will use cash bonus instead.
- Approved to restructure HTC offshore investments, to simplify the holding structure by function and geography and improve transparency.

- In 2006, HTC issued 8,000,000 shares of employee stock bonus and the Board approved the buyback and cancellation of treasury share of 3,624,000 shares in the same year.
- In 2008, HTC issued 10,320,000 shares of employee stock bonus and the Board approved the buyback and cancellation of treasury share of 10,000,000 shares in the same year.

# BUSINESS ENVIRONMENT

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- Converging devices momentum remains relatively resilient against to a sharp contraction of broad mobile device industry impacted by a slowing world economy.
- At early stage of mobile broadband cycle, significant growth potential still exists for players who has sustainable competitive product portfolio. Attractive return of investment will be rewarded to the innovation to drive excellent user experience and enhance productivity at mobility.
- Mobile internet experience has been appreciated from subscribers on devices such as Touch Diamond, Touch HD and G1 even in economic downturn. Desires for innovative user-friendly interface, such as web browsing, email access, and location based application, are highly expected from upcoming converging devices like Magic, Diamond2, Pro2 and Snap.

# MANAGEMENT INITIATIVES

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- The launch of latest Windows family (Cruise 09, Diamond2, Pro2, Snap) not only demonstrates our commitment to enrich Windows Mobile user experience by superior performance enhancement and killer innovative feature sets (people centre communication, push Internet, straight-talk, inner circle) at rich form factor portfolio but also shows our belief of Windows Mobile value and strategic partnership with Microsoft.
- G1 has named Android a successful and compelling platform. The launch of 2<sup>nd</sup> Android member “Magic” is our immediate respond to emerging operator interest and management aims to ramp up Android portfolio to meet accelerated demand around the world.

# MANAGEMENT INITIATIVES

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- Core competency has been expanded from platform leadership toward great user experience focus. Seamless integration of solid hardware, software and product design teams powers HTC innovation into time-to-market converging product roadmap.
- Global operator franchise has advanced to another milestone: constructive and strategic relationship has been well established with major US operators, together with already close European operator partnership, which strengthens HTC brand creation and product innovation.



## 1Q09 P&L (UNCONSOLIDATED)

| <u>(NT\$ Billion)</u>      | <u>1Q 08</u> | <u>4Q 08</u> | <u>1Q 09</u> | <u>QOQ</u>    | <u>YOY</u>    |
|----------------------------|--------------|--------------|--------------|---------------|---------------|
| <b>REVENUES</b>            | 32.70        | 47.38        | 31.59        | -33.3%        | -3.4%         |
| <b><u>GROSS PROFIT</u></b> | <u>11.66</u> | <u>14.10</u> | <u>9.50</u>  | <u>-32.6%</u> | <u>-18.5%</u> |
| <b><u>RSGA EXPENSE</u></b> | <u>4.25</u>  | <u>5.46</u>  | <u>4.64</u>  | <u>-15.0%</u> | <u>9.2%</u>   |
| <b>NOP</b>                 | 7.46         | 8.66         | 4.84         | -44.1%        | -35.0%        |
| <b>NPBT</b>                | 7.65         | 8.94         | 5.39         | -39.7%        | -29.6%        |
| <b>NPAT</b>                | 6.94         | 8.09         | 4.87         | -39.7%        | -29.8%        |
| <b>GPM</b>                 | 35.6%        | 29.8%        | 30.1%        |               |               |
| <b>RSGA RATIO</b>          | 13.0%        | 11.5%        | 14.7%        |               |               |
| <b>EPS*(NT\$)</b>          | 12.12        | 10.73        | 6.54         |               |               |

\*The EPS was calculated based on the outstanding shares at the time.

# 1Q09 P&L (CONSOLIDATED)

| <u>(NT\$ Billion)</u>      | <u>1Q 08</u> | <u>4Q 08</u> | <u>1Q 09</u> | <u>QOQ</u>    | <u>YOY</u>    |
|----------------------------|--------------|--------------|--------------|---------------|---------------|
| <b>REVENUES</b>            | 32.68        | 47.07        | 31.41        | -33.3%        | -3.9%         |
| <b><u>GROSS PROFIT</u></b> | <u>11.64</u> | <u>14.18</u> | <u>9.61</u>  | <u>-32.2%</u> | <u>-17.4%</u> |
| <b><u>RSGA EXPENSE</u></b> | <u>4.48</u>  | <u>5.31</u>  | <u>4.59</u>  | <u>-13.6%</u> | <u>2.4%</u>   |
| <b>NOP</b>                 | 7.17         | 8.88         | 5.03         | -43.4%        | -29.9%        |
| <b>NPBT</b>                | 7.65         | 8.97         | 5.44         | -39.4%        | -28.9%        |
| <b>NPAT*1</b>              | 6.94         | 8.09         | 4.87         | -39.7%        | -29.8%        |
| <b>GPM</b>                 | 35.6%        | 30.1%        | 30.6%        |               |               |
| <b>RSGA RATIO</b>          | 13.7%        | 11.3%        | 14.6%        |               |               |
| <b>EPS*2(NT\$)</b>         | 12.12        | 10.73        | 6.54         |               |               |

\*1Attributable to stockholders of parent company, excluding minority interest.

\*2The EPS was calculated based on the outstanding shares at the time.

# 1Q09 KEY FINANCIALS (UNCONSOLIDATED)

| <u>(NT\$ Billion)</u>      | <u>Mar 31, 08</u> | <u>Dec 31, 08</u> | <u>Mar 31, 09</u> | <u>QOQ</u> | <u>YOY</u> |
|----------------------------|-------------------|-------------------|-------------------|------------|------------|
| <b>CASH*</b>               | 63.47             | 61.83             | 71.72             | 16.0%      | 13.0%      |
| <b>AR</b>                  | 16.67             | 29.80             | 17.56             | -41.1%     | 5.3%       |
| <b>INVENTORY</b>           | 7.75              | 7.42              | 4.64              | -37.4%     | -40.1%     |
| <b>NET WORTH</b>           | 62.93             | 60.66             | 65.64             | 8.2%       | 4.3%       |
| <b>INVENTORY PROVISION</b> | 1.13              | 1.62              | 2.35              | 44.5%      | 108.1%     |
| <b>AR PROVISION</b>        | 0.29              | 0.55              | 0.75              | 35.6%      | 155.5%     |
| <b>WARRANTY PROVISION</b>  | 4.02              | 5.23              | 4.84              | -7.3%      | 20.4%      |

\*Includes cash equivalents.

# 1Q09 KEY FINANCIALS (CONSOLIDATED)

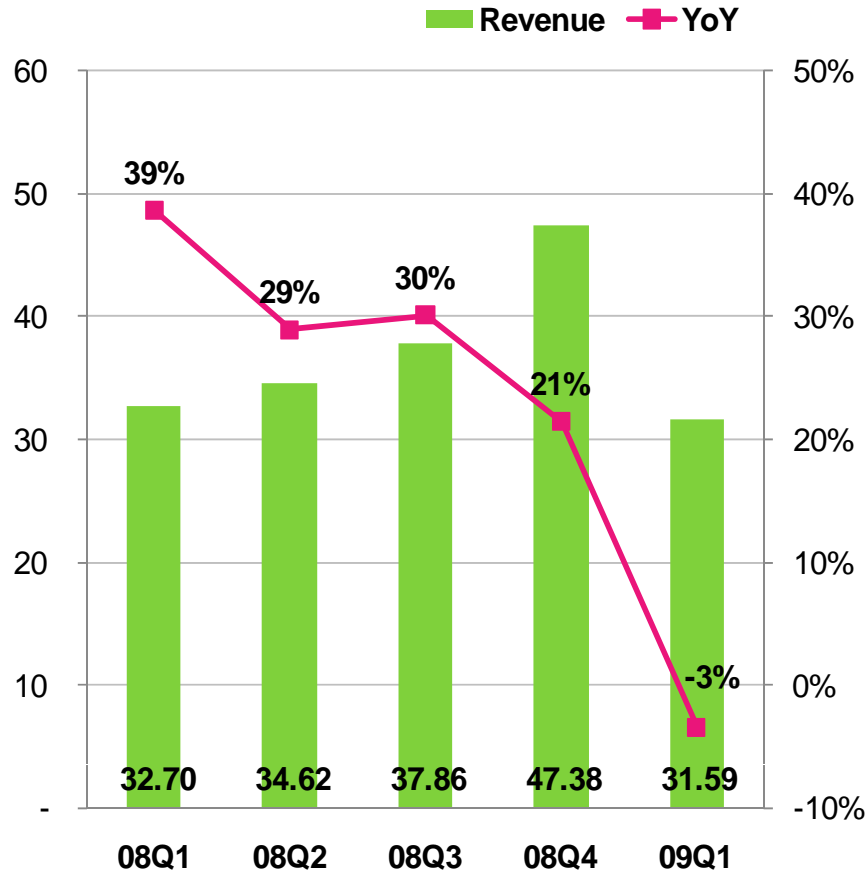
| <u>(NT\$ Billion)</u>         | <u>Mar 31, 08</u> | <u>Dec 31, 08</u> | <u>Mar 31, 09</u> | <u>QOQ</u> | <u>YOY</u> |
|-------------------------------|-------------------|-------------------|-------------------|------------|------------|
| <b>CASH*<sup>1</sup></b>      | 64.81             | 64.24             | 73.98             | 15.2%      | 14.1%      |
| <b>AR</b>                     | 16.58             | 29.45             | 17.28             | -41.3%     | 4.2%       |
| <b>INVENTORY</b>              | 8.59              | 8.25              | 5.78              | -29.9%     | -32.7%     |
| <b>NET WORTH*<sup>2</sup></b> | 62.93             | 60.66             | 65.64             | 8.2%       | 4.3%       |
| <b>INVENTORY PROVISION</b>    | 1.45              | 1.91              | 2.57              | 34.4%      | 77.5%      |
| <b>AR PROVISION</b>           | 0.46              | 0.58              | 0.78              | 34.8%      | 67.8%      |
| <b>WARRANTY PROVISION</b>     | 4.02              | 5.23              | 4.85              | -7.3%      | 20.5%      |

\*<sup>1</sup>Includes cash equivalents.

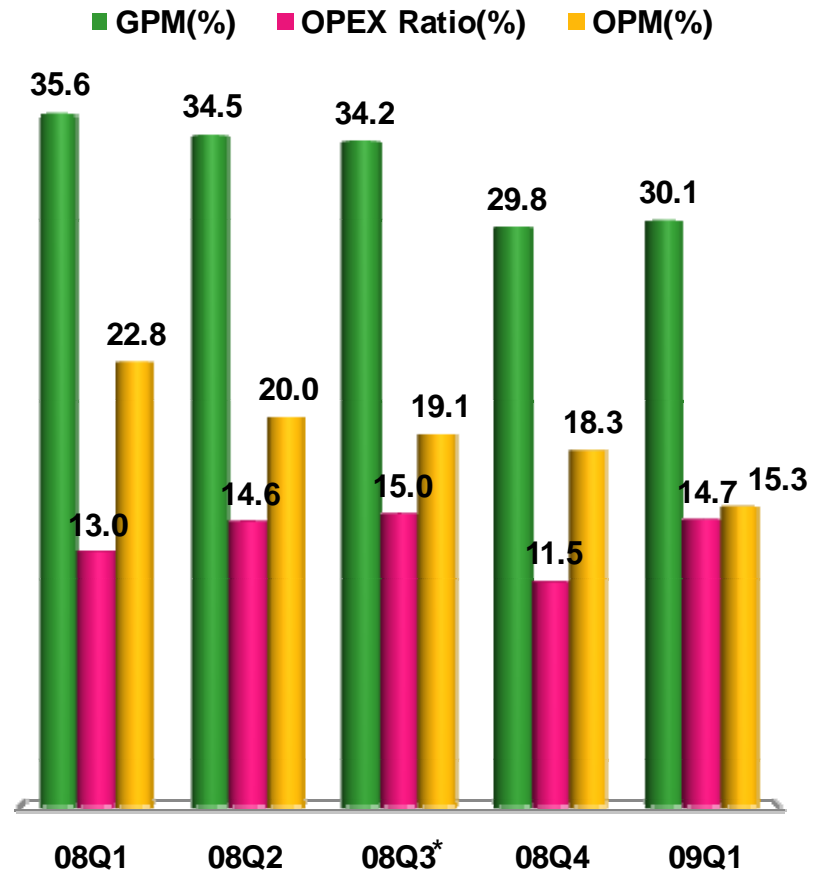
\*<sup>2</sup>Attributable to stockholders of parent company, excluding minority interest.

# FACT SHEET UPDATES – BUSINESS STATUS

## REVENUE



## MARGIN

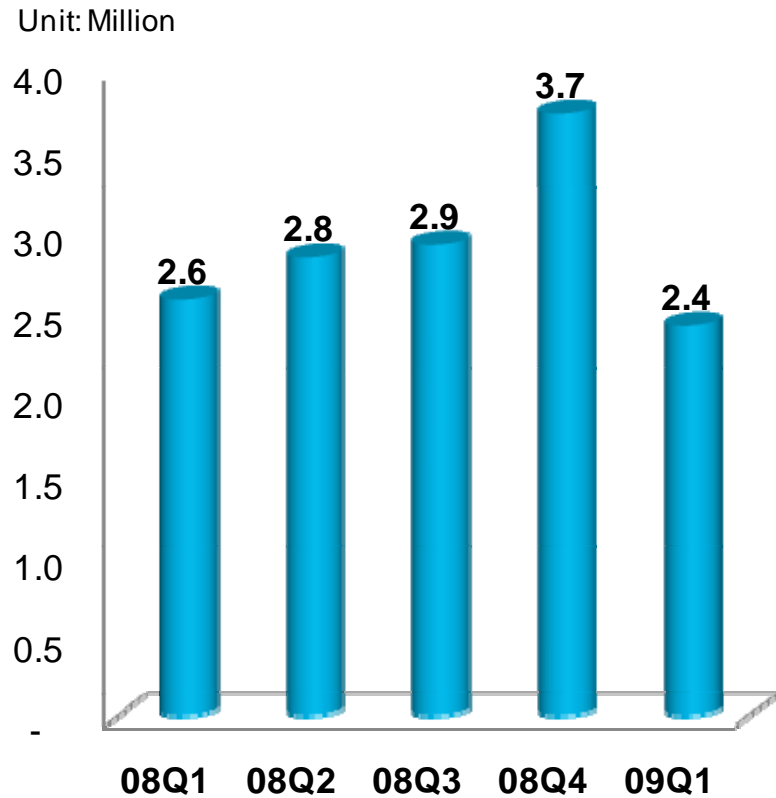


\*Excluded 2 adjustments of NT\$0.24 billion for accounting adjustment and PSP expenses in 3Q 08, the adjusted NOP post-bonus is NT\$7.47bil in 3Q whereas OPM post-bonus is 19.7% in 3Q 08.

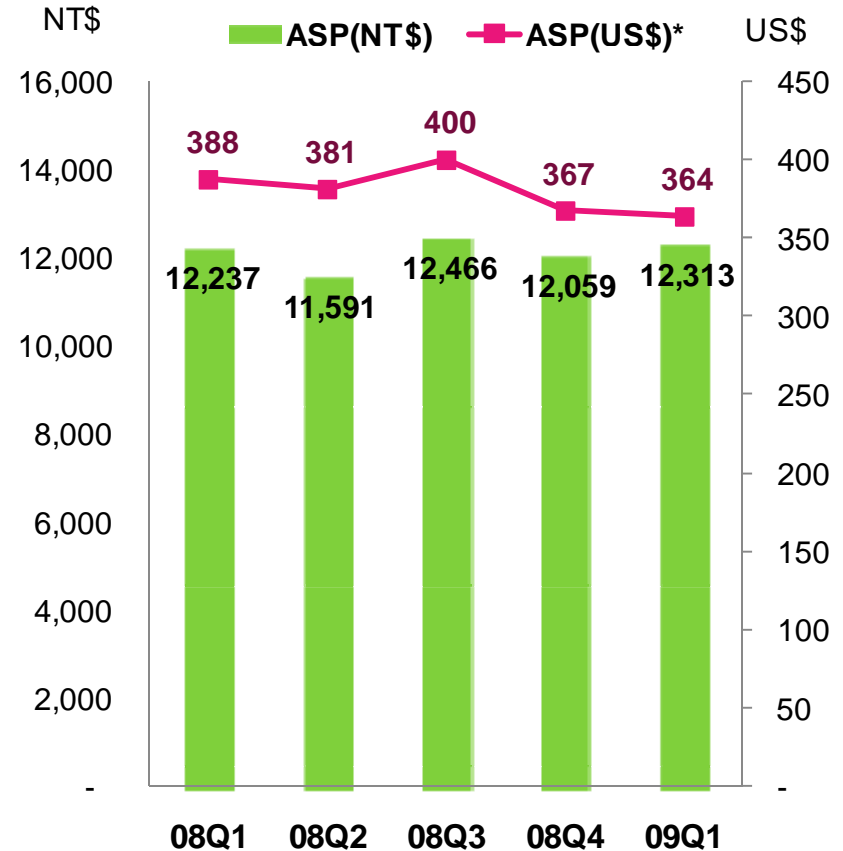
\*\*Starting from this conference call, all margins will be under post-bonus bases.

# FACT SHEET UPDATES – BUSINESS STATUS

## SHIPMENT



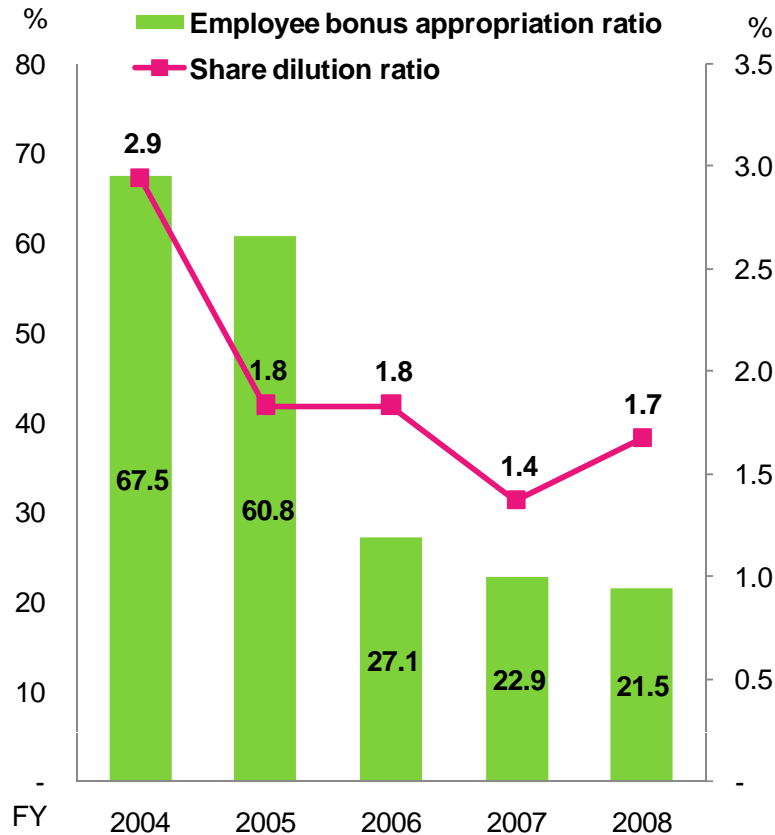
## AVERAGE SELLING PRICE



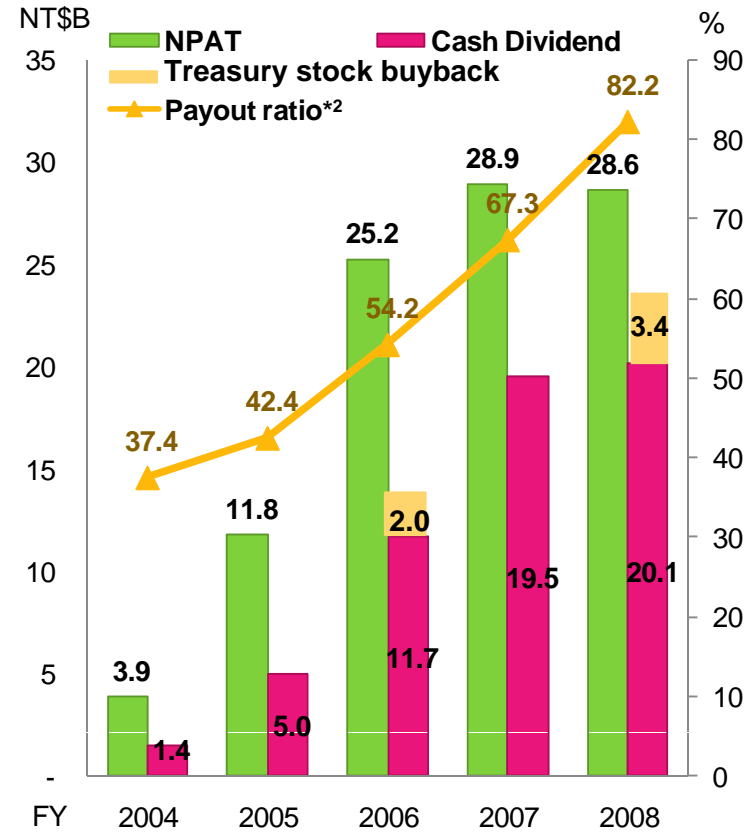
\*The ASP(US\$) is translated to the US dollar at average exchange rate for each quarters. The exchange rates for 1Q08 to 1Q09 are 31.57, 30.43, 31.16, 32.84 and 33.85 respectively.

# FACT SHEET UPDATE-SHAREHOLDER INTERESTS

## EMPLOYEE BONUS\*1



## DIVIDEND DISTRIBUTION



\*1Employee bonus share price valued at the closing price prior to the date of shareholder meeting except for 08's shares which is valued at the date of April 29, 09, the previous date of the board meeting making decision of the employee bonus distribution.

\*2Payout ratio = (Cash dividend + Treasury stock buyback) / NPAT.

## 2Q09 BUSINESS OUTLOOK

- 2Q revenue expects to grow above high single digit YoY or from NT\$37.5bn to NT\$38.5bn. The growth magnitude depends on ramping speed of new products and macro condition.
- GPM expects to be around  $31\% \pm 0.2\%$ , slightly higher than 1Q09's 30%, and improvement majorly contributes from product mix.
- OPEX ratio expects to be around  $14.5\% \pm 0.2\%$ , slightly lower than 1Q09's 14.7%.
- 1Q's launched new products (3 Windows & 1 Android family) will fully ramp up in 2Q. In addition, at least a couple new products will launch in 2Q.
- Annual business guidance remains unchanged on both revenue growth and OPEX ratio.

\*Starting from this conference call, all margins will be under post-bonus bases.

\*\* All the numbers above are based on unconsolidated financial statements.



# FAQs

- Q: What is HTC strategy on Windows Mobile and relationship with Microsoft after successful Android launch?
  - A: HTC appreciates Windows Mobile value and commits Microsoft as strategic partner. We will continue to put effort to build competitive Window Mobile product roadmap to optimize great user experience on system performance, friendly user interface, and enriched feature sets.
- Q: Will Magic only be exclusive to Vodafone in Europe?
  - A: Vodafone will ramp Magic in 5 European countries in 2Q, and with initial exclusiveness at Germany, France, UK, and Spain only; but HTC will ship Magic to countries in US and Asia as well as the remaining countries (other than Vodafone initial coverage) in Europe.
- Q: Please comment the market potential of Android platform, after initial ramp from T-mobile G1.
  - A: Unlike G1 and started from Magic, HTC will maximize Android portfolio geographical exposure to global scale; in addition, we will provide customization service to drive penetration rate at each region.

# FAQs

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- Q: Would the Android platform cannibalize the WM platform?
  - A: HTC likes to maintain leadership position in either market as we believe that either OS commands unique value proposition to different market segmentation. We look for the net market share gain rather than the market share in individual OS market. We also believe competitive open platforms (such as Window Mobile and Android) would only help to speed up the convergence device penetration rate in overall mobile industry.
- Q: What is HTC view on third party software ecosystem on convergence device?
  - A: HTC sees value and emerging interest on Apple App Store as important mobile application , and our Android portfolio will fully support Android Market. In addition, our upcoming Windows portfolio will incorporate Microsoft's equivalent service once it is available.
- Q: Pleases comment how upcoming Mediatek's windows mobile turnkey solution will impact HTC?
  - A: We don't see major impact to our business because its market segmentation poised to be quite different from HTC.

# FAQs

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■ Q: Please comment HTC's China strategy?

■ A: After China finally launched 3G license early 2009, we believe there will be enormous convergence device opportunity in China as the population of interest on internet access and IT devices is significant. HTC is well prepared by proven technology portfolio ownership covering three key Chinese 3G standards (UMTS, CDMA and TD-SCDMA). In addition, we are well positioned to engage Chinese operators as HTC and our partner (Dopod) have been highly recognized in China market already.

■ Q: Why Non operating profit jumped significantly in 1Q09 result?

■ A: The non operating profit mainly contains forex gain, interest income and long-term investment gains. The net non operating profit in 1Q09 achieved NT\$548 million mainly due to high forex gain of NT\$321 million. The interest income and long-term investment gains were NT\$164 million and 175 million respectively.